

Final Plan Attachment 5.11

Australian Gas networks Draft Plan Customer
Workshop Presentation

October 2016

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AGN Five Year Plan for Victoria and Albury

5 October 2016
Preston



Forms

Information consent



Thank you for your participation in the Australian Gas Network

AGN has engaged Deloitte to help gather your feedback at stakeholder website (stakeholders.agn.com.au). Except planning and other reports or documents published by AGN Energy Regulator. These reports and documents may also

Your voice, and that of the people you represent (your town the future development of the AGN distribution network. If or contact the AGN Regulation team at any time.

Please sign and complete the details below if you consent Engagement workshops for the purposes described above consent after AGN has published a report which includes a published report.

Please note if your name is used in any written form in con range of stakeholders (eg an industry or community group) used in any publicly available information.

First and last name	
Signed	
Address	
Phone number	
Email	

Note: AGN collects your address and contact details to confirm your consent further in this process. Those details will not be published or disclosed

Publicity consent



I consent to Australian Gas Networks (AGN) making and using photographs, videos or voice recordings of me for business purposes, including promotional material, advertising, newsletters and reports.

In giving this consent I acknowledge and accept that:

- The material may be used in any media, including the internet
- If the material is published on the internet, AGN may have no control over its subsequent use or disclosure by others
- I will not necessarily be given an opportunity to see the material before it is published
- AGN will own the copyright and other intellectual property rights in the material and may alter it without consultation with me
- I am not entitled to any form of payment from AGN or anyone else for the use of the material
- This consent will continue until I withdraw it in writing to the Regulatory Policy Manager at AGN. However, I understand that if AGN is already using my image or voice recording at that time, my consent will continue in relation to that material until the use is complete.
- I am over the age of 18
- I am not in any way obliged to give this consent.

First and last name	
Signed	
Address	
Phone number	
Email	

Note: AGN collects your address and contact details to confirm your consent to publication of the material and to contact you should we wish to clarify information or to request that you participate further in this process. Those details will not be published or disclosed without your consent, and will not be used for marketing purposes.

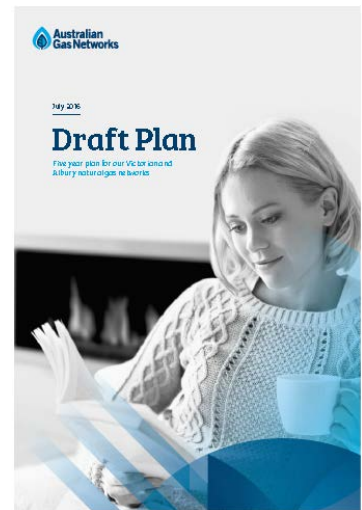
Introduction

Introduction | Preston Agenda

Topic	Time	Duration
Introduction	6:30	5 minutes
Background	6:35	10 minutes
Our Plans – Current View	6:45	30 minutes
Our Plans – Discussion	7:15	10 minutes
Break	7:25	10 minutes
Recap and Incorporation of Feedback	7:35	50 minutes
Consideration of Feedback – Discussion	8:25	15 minutes
Feedback Form	8:40	10 minutes
Wrap up and close	8:50	10 minutes
End	9:00	

Introduction | Why are we here?

- In March, we heard from you about your experiences with AGN, your views on potential future investments and your needs and priorities as a gas customer
 - Deloitte reported on your feedback in the Customer Insights Report (5 July 2016)
 - AGN considered your feedback in its Draft Plan (5 July 2016)
- AGN want to make sure they heard properly and to let you know how they incorporated any feedback into their Plans
- As a regulated business, AGN's plans are submitted to the Australian Energy Regulator (AER) who reviews and approves expenditure and the maximum price charged to customers
- Deloitte are here to facilitate the workshops and independently capture and report on any discussion



Introduction | Today's Presenters



Ben Wilson
Chief Executive Officer
Australian Gas Networks



Craig de Laine
General Manager – Regulation
Australian Gas Networks



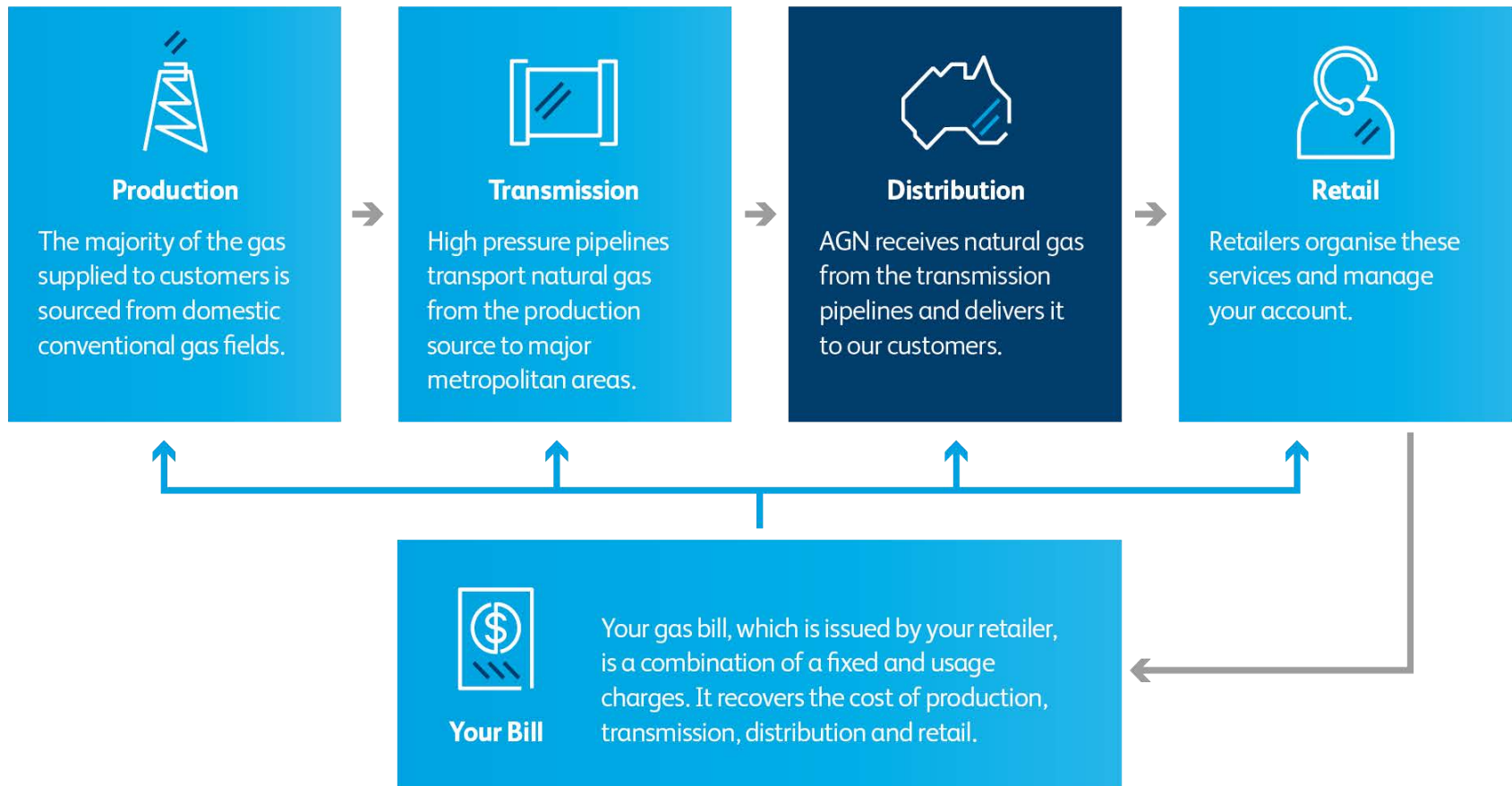
Andrew Foley
General Manager – Victorian
Networks
APA Group



Shaun Spinks
Deloitte

Background

Background | Re-cap: Who We Are and What We Do



Our vision

Our vision is to be the leading natural gas distributor in Australia...

Delivering for customers



Public Safety

Reliability

Customer Service

A good employer



Safety

Employee Engagement

Skills Development

Sustainably cost efficient



Working Within Industry Benchmarks

Delivering Profitable Growth

...achieving top quartile performance on our targets

Background | Developing our Plans

Research

Including initial customer workshops in March 2016



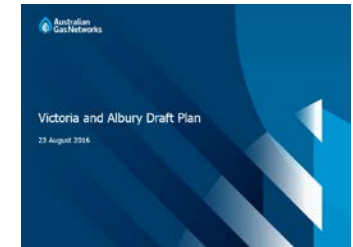
Insights and Draft Plan

Summarising what we heard from customers & stakeholders & reflecting it in our Draft Plan



Consultation on our Draft Plan

Including through stakeholder workshops



AGN's AA Proposal
Submitted to the AER by
1 January 2017



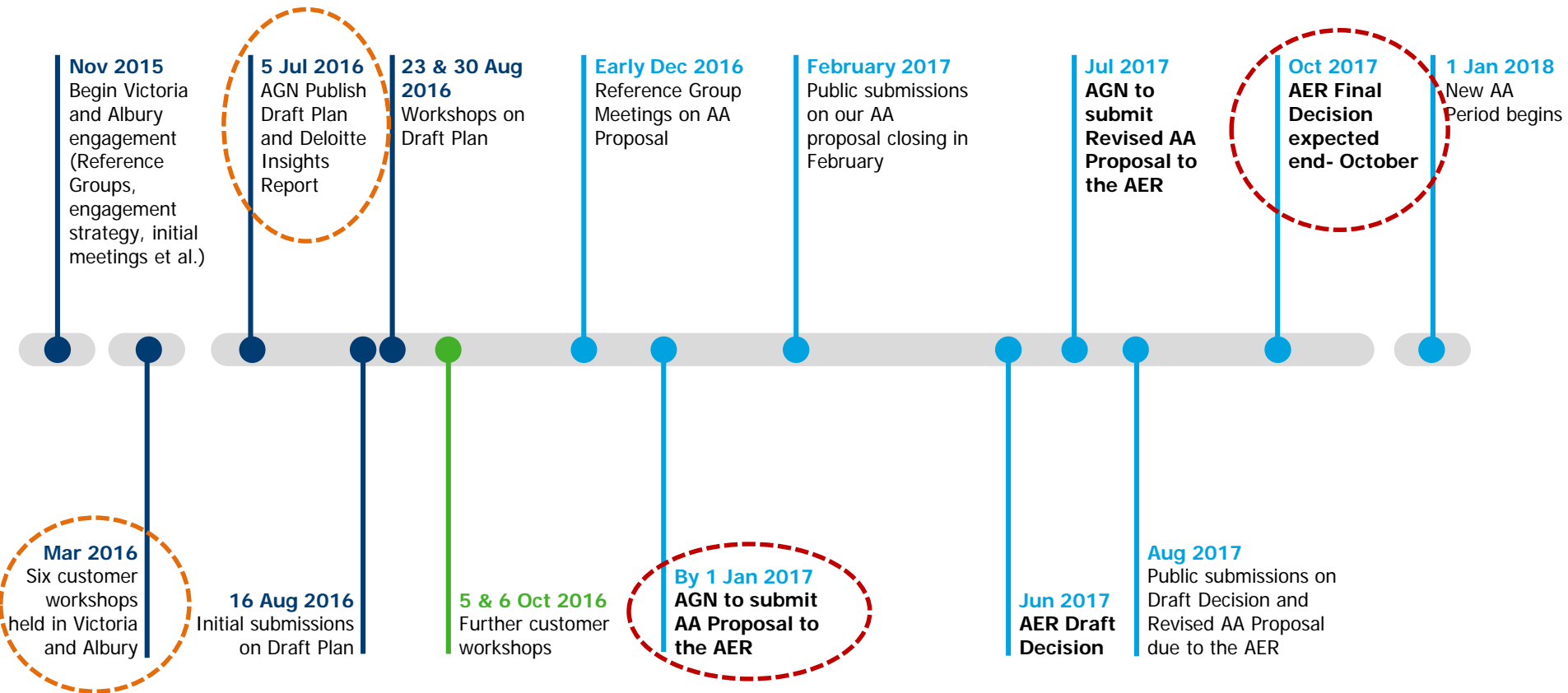
Further Customer Engagement

Did we hear correctly in the initial workshops? How have the customer insights been reflected in our Plans



Continued Refinement of our Plans
To reflect stakeholder feedback and any changes in market conditions

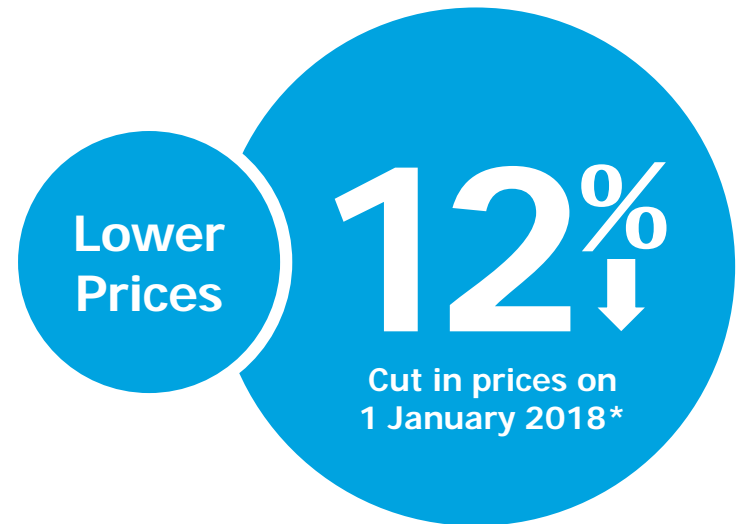
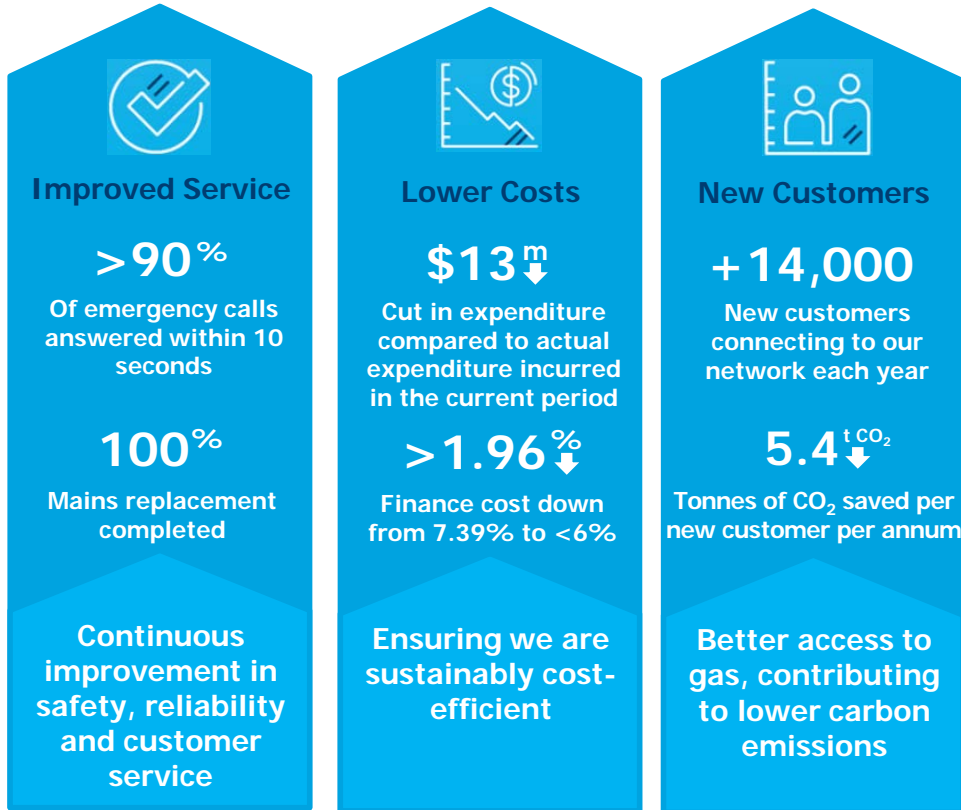
Background | Timeline



Continued Engagement with Regulators and other key stakeholders

Our Plans – Current View (subject to change prior to submission)

Our Plans | Current Plans for Victoria and Albury

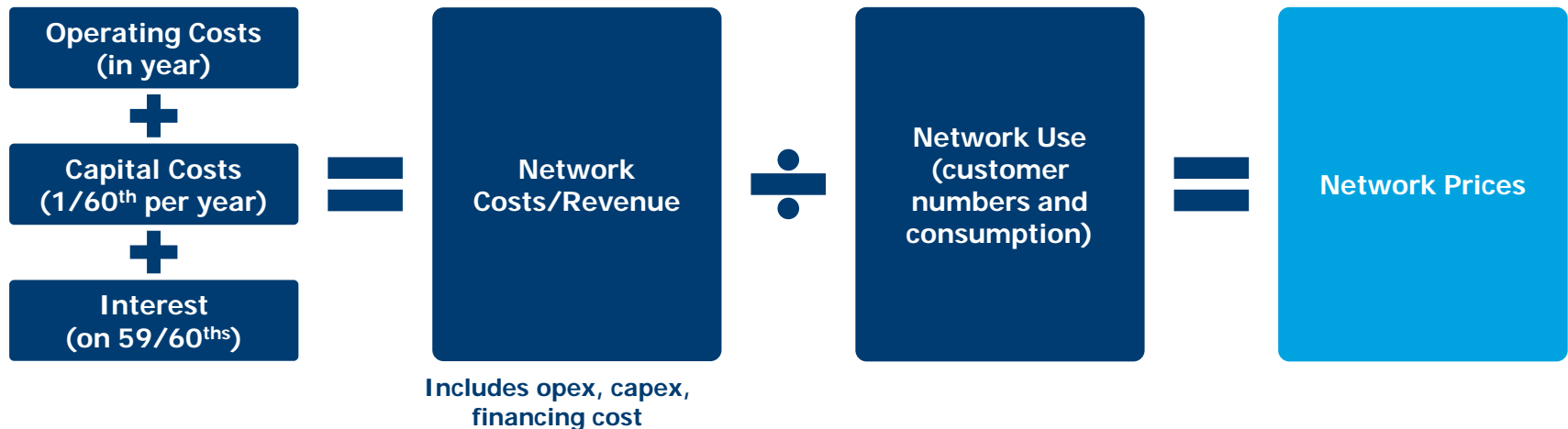


Lower prices, lower costs, continuous service improvements

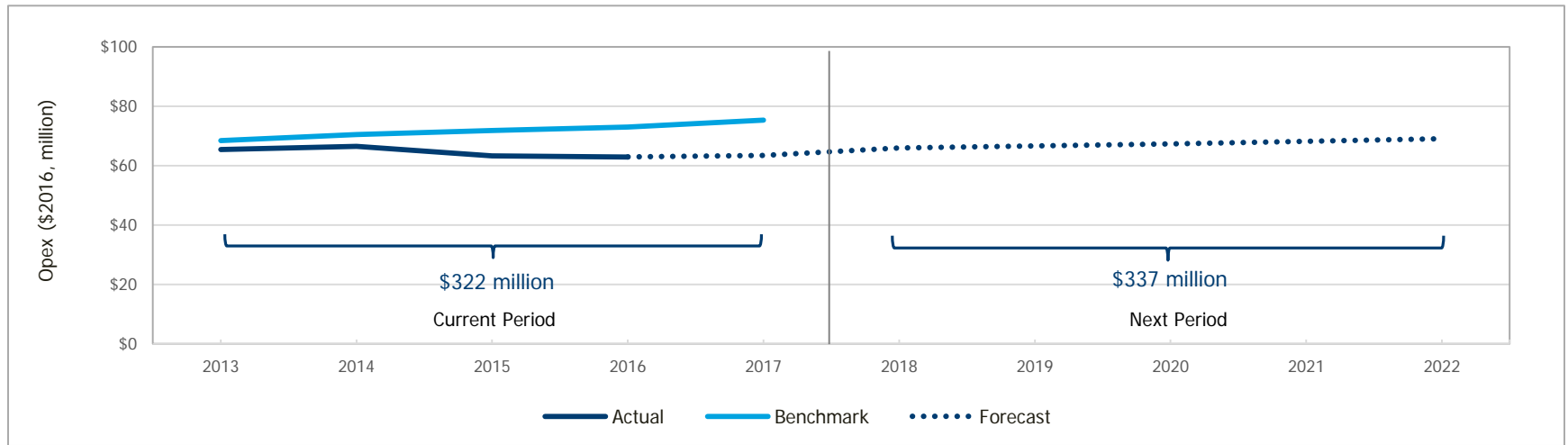
* Before inflation

Our Plans | Building Block Model – How are Prices Determined?

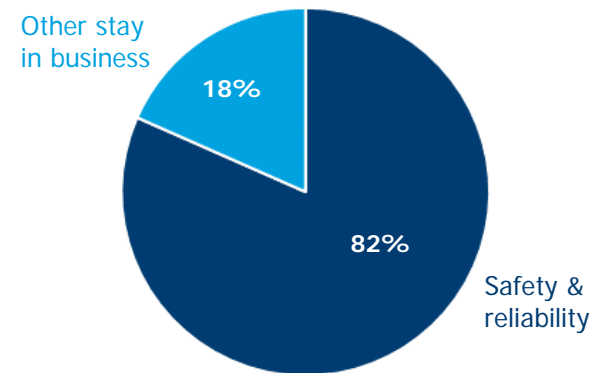
- As described earlier, our Plan is submitted to the AER for review and approval
- This Plan sets out what work we need to undertake over the next five year period and how much we expect this work to cost (operating and capital expenditure)
 - It also includes forecasts of how we will finance our business
- Our network revenue (expenditure plus a return on and of our investment) is recovered by charging customers for using the network



Our Plans | Operating Expenditure (Opex)



- We have applied the AER’s preferred forecasting approach wherever possible
- The major components of our opex are:
 - Efficient base year (BAU) (\$310m)
 - Escalation and Growth (\$13m)
 - Marketing (\$10m)

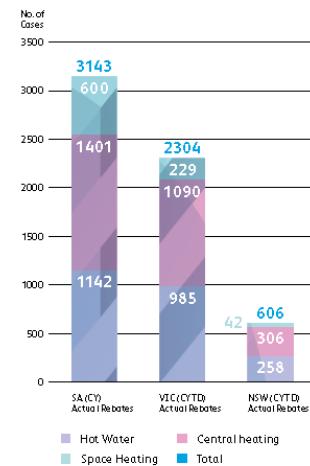


Our Plans | New Initiative – Marketing

- Only non-base year cost included in our plan is a \$2 million per annum joint marketing program with the other two Victorian gas distributors in metropolitan Melbourne
- Currently, AGN conducts marketing activities in regional Victoria and South Australia only (no overlap with other businesses)
- Proposing to expand this program to incorporate metropolitan Melbourne, as a joint project with the other gas distributors, to ensure costs are allocated appropriately
- Marketing activities will include:
 - Working with appliance retailers to offer incentives to customers for connecting new gas appliances to our network (through provision of rebates)
 - Mass media (such as advertising campaigns)



Rebates per appliance



2015 Rebate campaign



Consumers installing gas appliances benefit by reducing their carbon footprint. They are also able to access the benefits of natural gas – affordable, efficient and instant – for their homes.

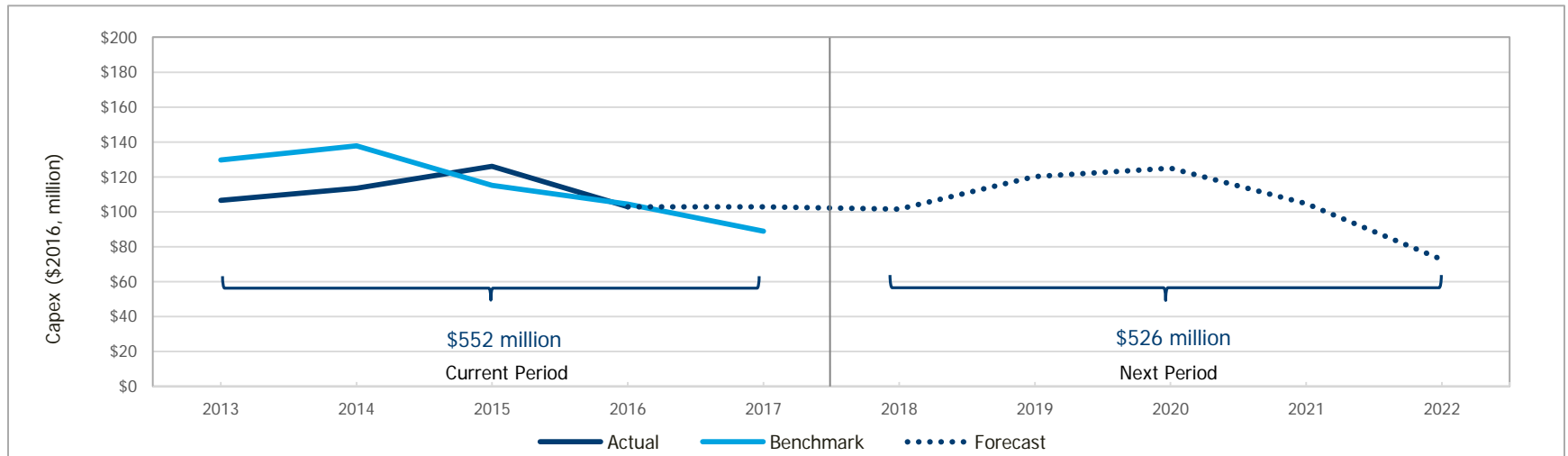
Our Plans | New Initiative – Marketing

- Marketing is required as natural gas is a fuel of choice (i.e. competes with electricity)
- The marketing program will increase the usage of our network, spreading fixed costs across more customers
- Increasing the number of connections will deliver lower prices to existing customers in the medium to long-term
- Why do we need an allowance? Because benefits will be passed to customers after the five year regulatory period



Do you support paying up to \$3 per year more on your bill in the short term to expand our marketing program on the basis that overall bills will fall in the medium term?

Our Plans | Capital Expenditure (Capex)

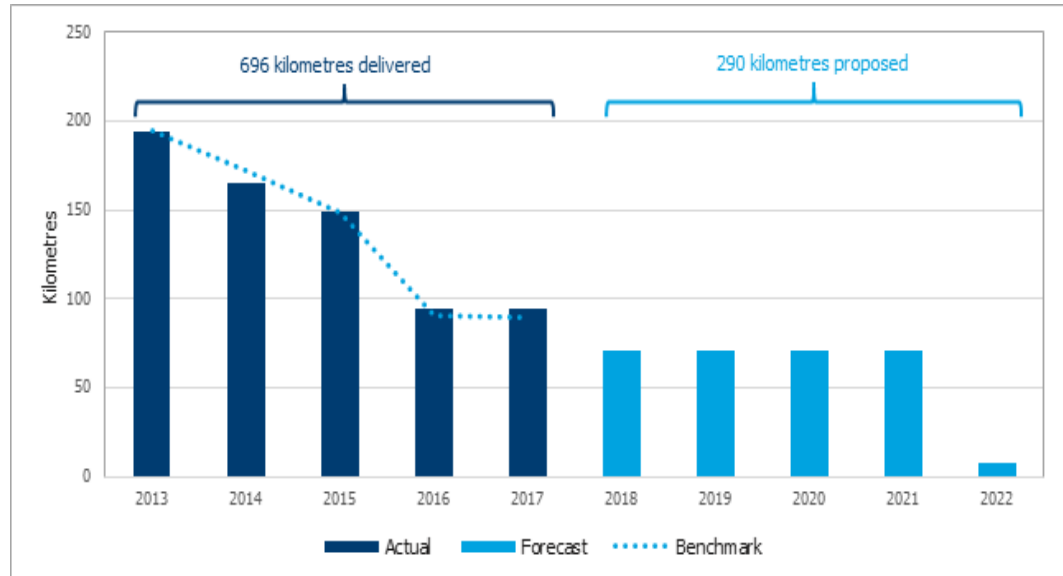


- We have applied the AER's preferred forecasting approach wherever possible
- The major components of our capex are:
 - Mains Replacement (31%)
 - IT (13%)
 - Discrete Projects (10%)
 - Growth (30%)
 - Meter Replacement (8%)
 - Augmentation (8%)

AGN is proposing a 'stay in business' capex proposal

Our Plans | Capex – Mains Replacement

- Current performance:
 - On track to deliver benchmark volume of low pressure mains replacement program
- Next period proposal:
 - Complete low pressure replacement program
 - Moving into Melbourne CBD
 - 3km HDPE sampling program
 - Engagement with ESV
 - Depreciation of old mains in RAB by 2022

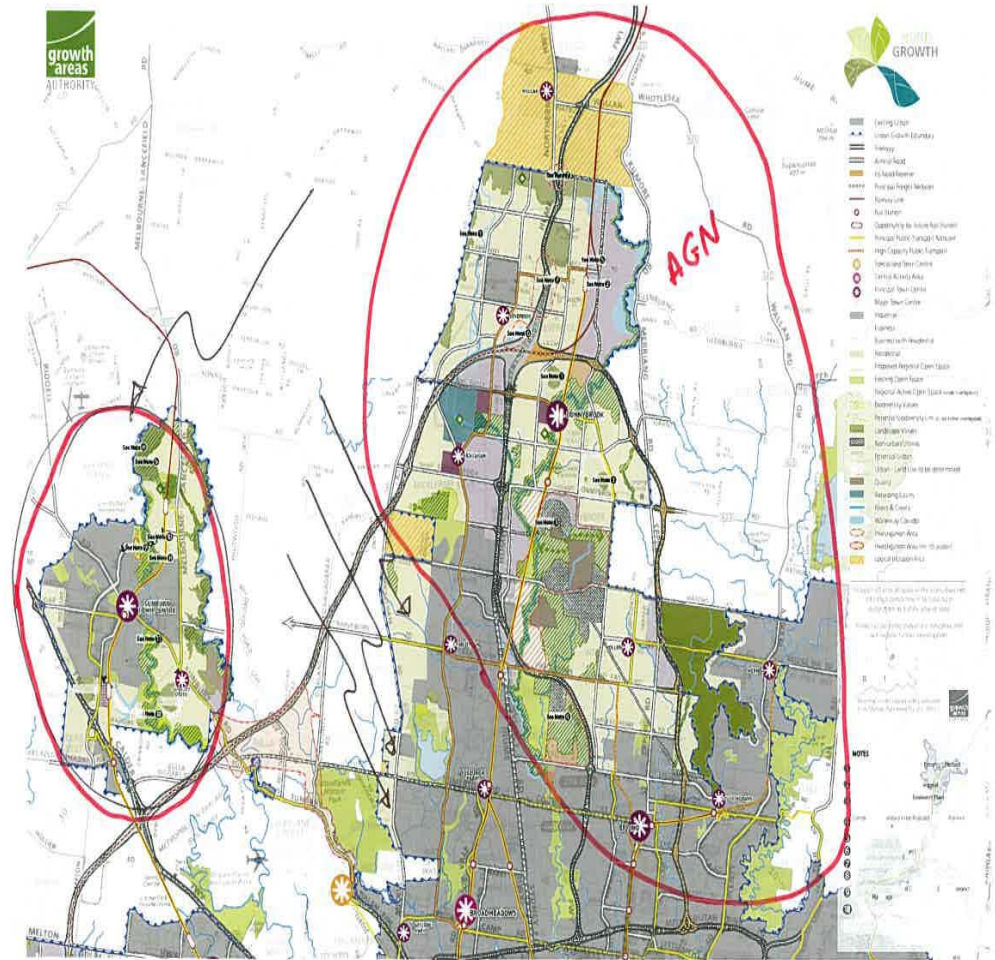


Decrease of approximately \$90m over the next period, compared to costs incurred in current period

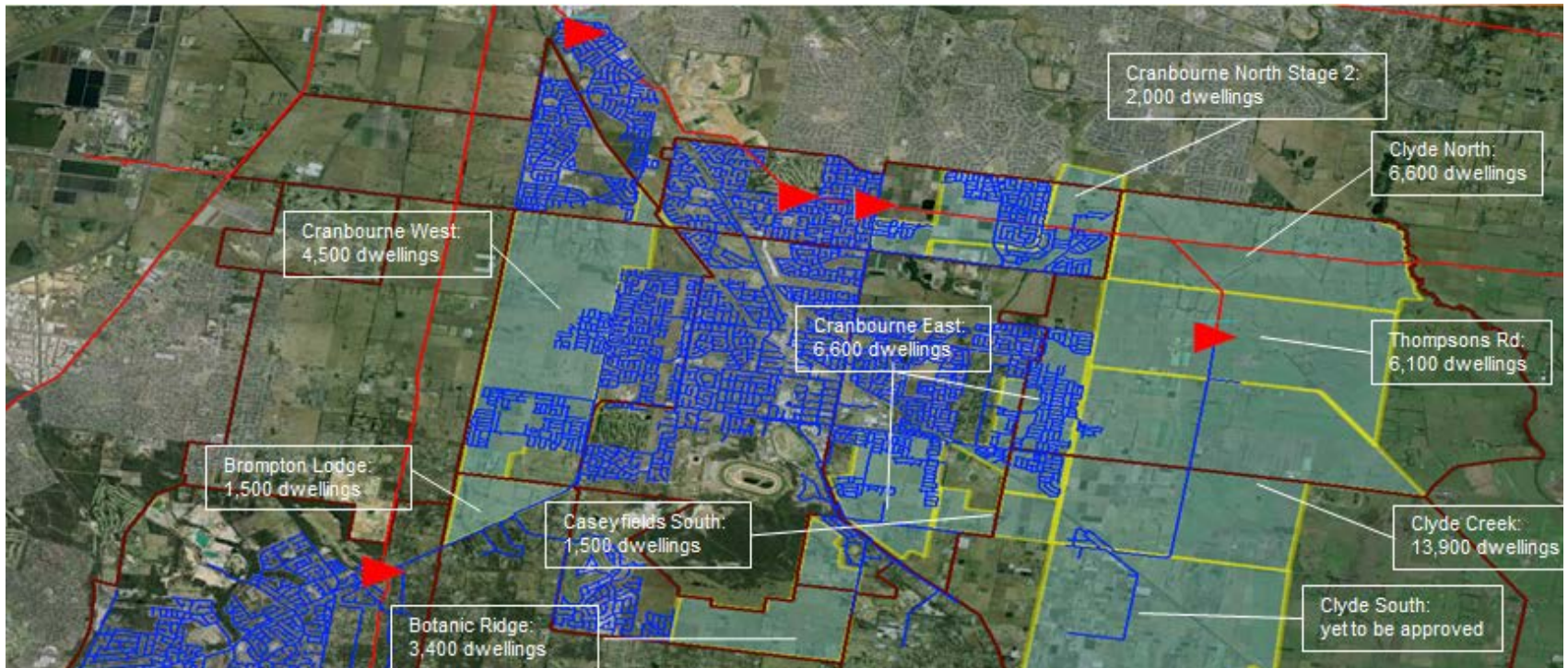
Safety considerations are driving our mains replacement program

Our Plans | Capex – Augmentation – Northern Corridor (Merrifield)

- Merrifield project will deliver 37,000 homes
- Northern growth corridor will ultimately deliver 220,000 homes
- Evaluations now underway for other northern developments for example Donnybrook East



Our Plans | Capex – Augmentation: Southern (Cranbourne and Clyde)



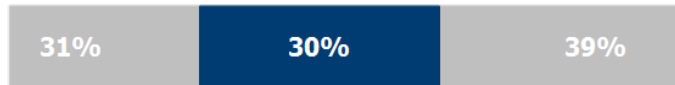
UGB / Development approvals for:

- 6,000 homes in the west of Cranbourne
- 2,000 homes in the north of Cranbourne
- 3,400 homes in Botanic Ridge
- 30,000 homes in the Cranbourne East and Clyde / Clyde North corridor
- Additional developments in PSP Clyde South yet to be approved (but of a similar size to Clyde Creek)

Our Plans | Falling Prices in 2018

Bill Composition:

Residential

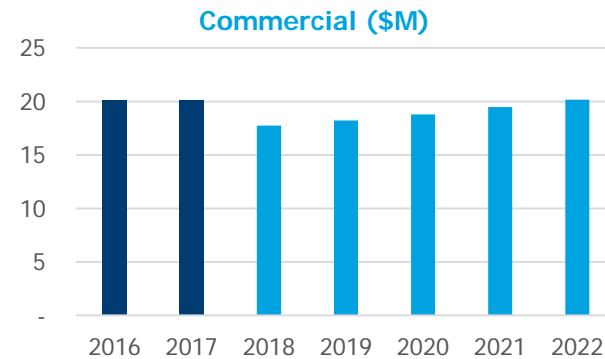
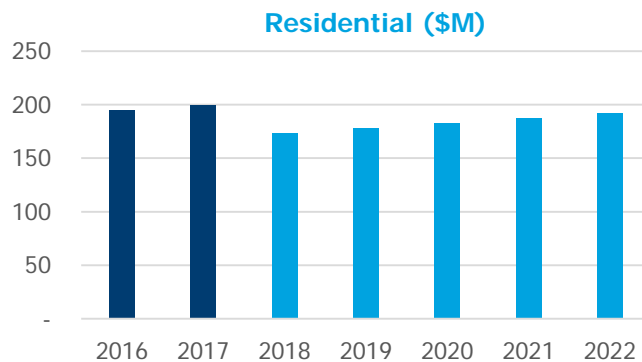


Commercial



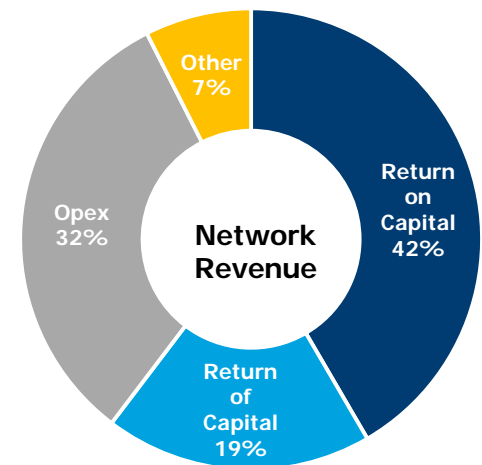
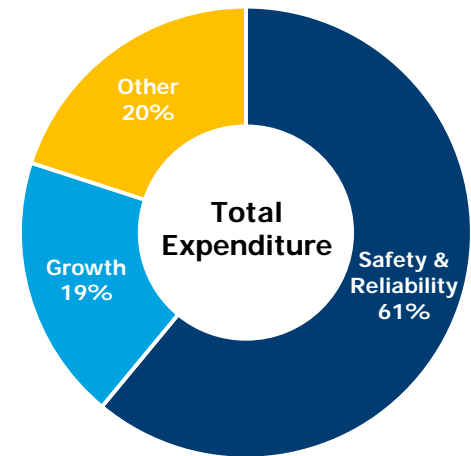
Price:

- Our Plans provide for lower distribution charges over the next five years compared to the current period



Our Plans | Total Expenditure and Your Bill

- Our expenditure is focussed on improving the safety and maintaining reliability of supply of natural gas
- Your bill provides us the funds we require to run our business, the average distribution charges in 2018 (before inflation) are estimated to be:
 - Residential: ~\$315 (down \$40 from 2017)
 - Commercial: ~\$1,141 (down \$143 from 2017)
- As described earlier, our proposal is a 'stay-in-business' plan that is consistent with customer and stakeholder priorities of safety and reliable supply of natural gas
- Being a 'stay-in-business' plan, we are not proposing extensive new expenditure
 - We did consult with you on a series of initiatives, which, as we will discuss later, reflect approximately \$6 per annum of your bill



Our Plans – Discussion



At a high level do you think AGN's approach/plan seem reasonable?
Do you have any other questions on AGN's Plan?
Would you like any further information on AGN's Plans?
Other?

10 Minute Break

Recap and Incorporation of Stakeholder Feedback

Customer Feedback | Recap – Customer Insights

Customer feedback received has been distilled into nine key customer insights



OVERARCHING INSIGHTS



CUSTOMER EXPERIENCE



NETWORK SAFETY & RELIABILITY



TARIFF STRUCTURES



ENVIRONMENTAL COMMITMENT

Customers do not understand the structure of the gas industry

02

Customers would like AGN to be more visible, believing it would improve their experience as customers

04

Customers view gas as a reliable source of energy and value the current standard of reliability

06

Customers value the control gained by having their gas bill dependent on usage levels

08



01

Customers are not aware of Australian Gas Networks



03

Customers traditionally considered gas a cost-effective alternative to electricity but are concerned with recent price increases

05

Customers would like to access to more information from AGN and favour digital channels



07

Customers are supportive of initiatives that maintain the reliability and improve the safety of the network



09


Customers would like AGN to play a leadership role in minimising environmental impact



Have we heard you correctly?

At a high level, are these insights consistent with your views?

Customer Feedback | Incorporating Customer Insights

- We will now discuss each of the nine customer insights and describe how AGN have considered and reflected this feedback into our Plans
 - Importantly, AGN want to make sure that we have interpreted and incorporated your feedback correctly
 - To facilitate this, in the next group of slides, where you see the  we will pause for discussion on the following:



Do you agree with our interpretation of customer feedback?

Do you agree with our incorporation of customer feedback?

Do you have any other questions/comment son the insight/approach?

- We will also use this workshop to test more detailed work proposals

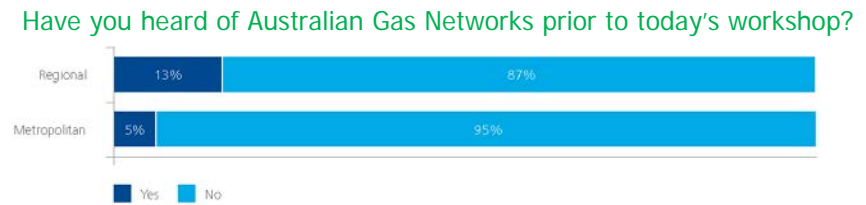
Customer Feedback | Customer Insights: Overarching

1. Customers are not aware of Australian Gas Networks

2. Customers do not understand the structure of the gas industry

Activity and Results:

- There was open discussion around who AGN is and their role in the industry
- Most participants had not heard of AGN and did not understand AGN's role as a gas distribution business, including how the regulatory regime operated



AGN Plan:

- It is not surprising that customers are unaware of AGN and our role
- As we will discuss shortly, we also heard that customer's would like AGN to be more visible and would like to access more information from AGN (Insights 4 & 5)
- We plan to increase awareness through more stakeholder and customer engagement, marketing activities and a better digital presence

Customer Feedback | Customer Insights: Overarching

3. Customers traditionally considered gas a cost-effective alternative to electricity but are concerned with recent price increases

Activity and Results:

- We began with an activity to gauge thoughts relating to natural gas
- Cost was a recurring theme, discussion highlighted concerns that prices were increasing and scepticism with respect to AGN's forecast price decrease



AGN Plan:

- Our plan provides for a 12% decrease in distribution charges on 1 January 2018, whilst maintaining or improving currently levels of safety and maintaining reliability:
 - This is consistent with the price cut proposed in our initial customer workshops
 - As discussed earlier, there are factors that can still impact proposed prices, such as changes in financing/interest costs
- Average distribution price over the 2018 to 2022 period will be lower than prices in the current five year period

Customer Feedback | Customer Insights: Customer Experience

4. Customers would like AGN to be more visible, believing it would improve their experience as customers

5. Customers would like to access more information from AGN & favour digital channels

Activity and Results:

- In group discussion, customers highlighted the importance of AGN increasing their visibility, providing access to information on their role and operations
- The communications preferences matrix showed Website as the preferred communication method, followed by Letter, SMS, Email and Mobile

AGN Plan:

- We plan to increase awareness through more stakeholder and customer engagement, marketing activities and an improved digital presence
- The digital capabilities project will deliver a customer service experience consistent with the delivery of service by other distributors (and businesses more generally) including new customer service channels and new customer functionality



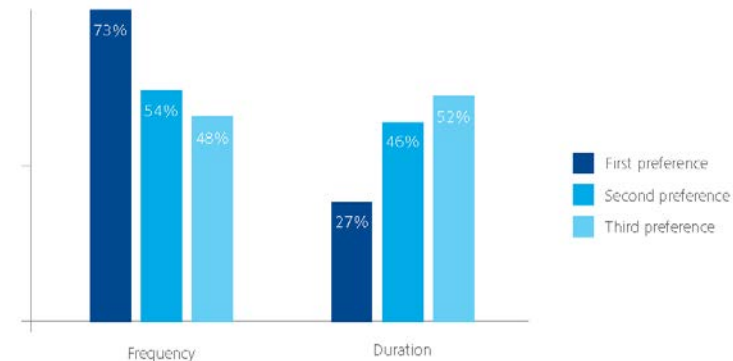
Customer Feedback | Customer Insights: Safety & Reliability

6. Customers view gas as a reliable source of energy and value the current standard of reliability

Activity and Results:

- During the workshop, you were asked if you were happy with your current level of reliability
- 100% satisfied with current reliability; 6% could recall a gas outage affecting them in the past 2 years
- No support for a higher level of reliability, one attendee (out of 78) was prepared to receive a reduced level of reliability in return for a lower price

Do you prefer AGN reduces the risk of more frequent but shorter outages, or longer duration outages at a lower frequency



AGN Plan:

- Our Plan provides for the currently levels of reliability to be maintained (1 supply outage every 40 years)
- Specific work that underpins this reliability is discussed in further detail on the following slides

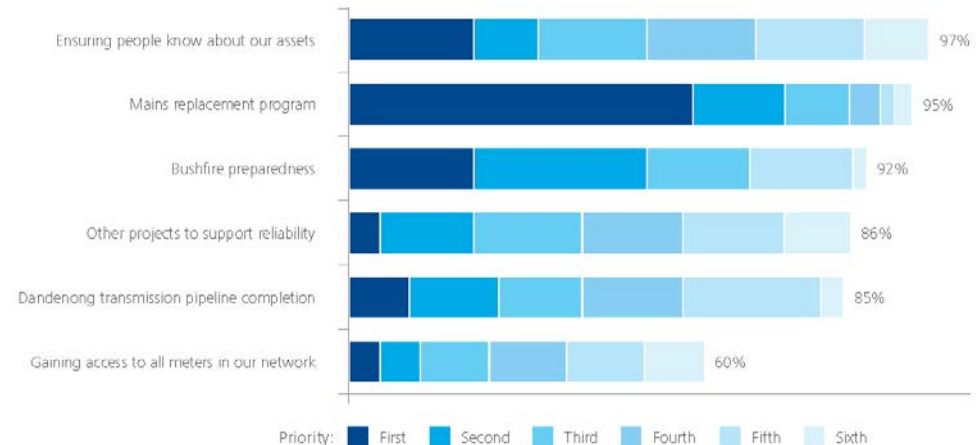
Customer Feedback | Customer Insights: Safety & Reliability

7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Activity and Results:

- AGN described that the majority of proposed expenditure related to the safety and reliability
- Six projects were discussed in detail, with customers asked to vote on their willingness to pay for the work
- Customers indicated they were willing to pay for all proposed initiatives, a total of \$17 per annum

Do you support paying more on your gas bill for the following proposed initiatives from AGN? If so, please rank each from first to sixth preference.



AGN Plan:

- As described on the following slides, we are proposing to deliver this work, but at a lower cost of around \$7.00 per annum

Customer Feedback | Customer Insights: Safety & Reliability

7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Ensuring people know about our assets:

- Unintended third-party damage to AGN assets that results in loss of supply and or public safety issues, restoration expenses borne by all
- AGN considered implementing a DBYD awareness campaign for between \$0.10 and \$3.00 per annum

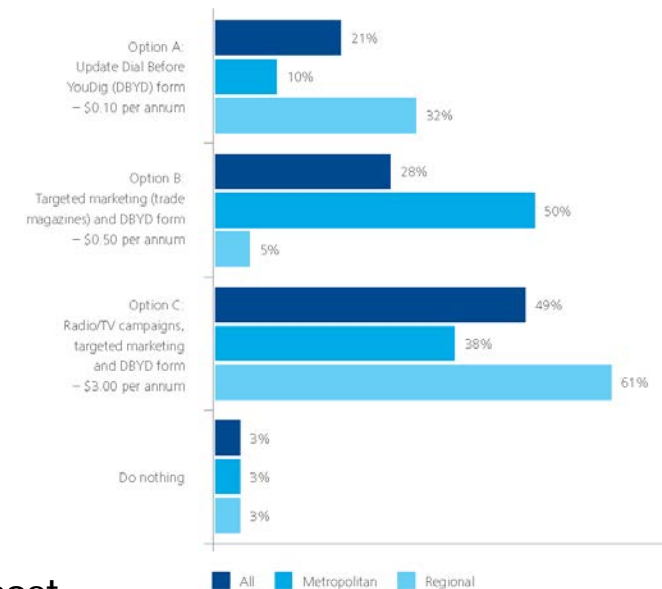
Results:

- Support for increasing awareness in some way (97%), with the majority supporting the highest cost option

AGN Plan:

- We believe we can achieve this objective at no additional cost, including through other proposed initiatives (marketing, IT etc.)

Do you support paying more on your gas bill to increase public awareness of AGN's assets to improve safety? :



Customer Feedback | Customer Insights: Safety & Reliability

7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Mains replacement program:

- Ongoing program to replace the oldest mains in the network
- The condition of gas mains and services are monitored regularly, replacement maintains and improves safety and reliability
- AGN initially proposed to replace approximately 300 kms mains in the network over the next five years (700 kms replaced over the current five year period) to complete the mains replacement program at a cost of \$6 per annum

Results:

- Customers felt this was a necessary investment to improve safety and maintain reliability, it was clearly ranked as the highest priority of all initiatives tested

Do you support paying up to \$6.00 more on your gas bill to complete approximately 300kms of the mains replacement program?



Customer Feedback | Customer Insights: Safety & Reliability

7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Mains replacement program:

AGN Plan:

- A key part of ensuring public safety is our mains replacement program
- We plan to proceed with proposed mains replacement, spending \$141 million on replacing 289 km of mains and associated risk mitigation activities over the next five years
 - This equates to a cost of approximately \$4.50 per customer (down from \$6.00 per customer initially forecast)
- The volume of mains to be replaced has been determined by applying the relevant Australian Standard and includes an assessment of risk, likelihood and consequence of an incident occurring



Customer Feedback | Customer Insights: Safety & Reliability

7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Bushfire preparedness:

- Gas meters and regulators are not designed to withstand intense heat, uncontrolled gas escapes can ignite and/or add fuel to fires
- AGN considered fitting Safety Devices to meters in order to reduce risk (\$0.50 to \$3.60 per annum)

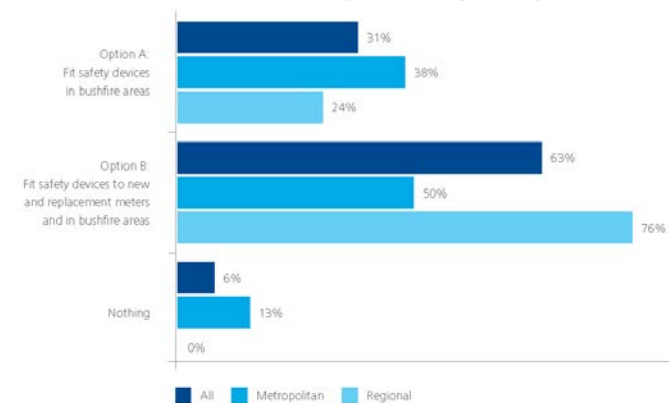
Results:

- 94% of participants supported the installation of these devices, with the majority supporting installation to all new and replacement meters and in bushfire areas

AGN Plan:

- We will install thermal safety devices to all new and existing service connections in bushfire prone areas at a cost of \$3 million (less than \$0.50 per customer)

Do you support paying more on your gas bill to improve fire preparedness by installing safety devices?



Customer Feedback | Safety & Reliability

7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Other projects to support reliability:

- AGN outlined a range of other projects designed to maintain network reliability
- These projects included work in the Mornington Peninsula, Echuca, Heidelberg/Ivanhoe, Cranbourne and Traralgon, at a cost of less than \$3.00 per annum

Results:

- The total level of support for these combined initiatives was strong (86%), but ranked as a lower priority than more far-reaching reliability and safety initiatives

AGN Plan:

- We will undertake a range of projects to ensure current level of reliability is maintained and to improve the safety of our network
- The cost of this work is less than \$1.00 per customer per annum



Customer Feedback | Customer Insights: Safety & Reliability

7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Dandenong transmission pipeline completion:

- The capacity of existing transmission pipeline will be fully utilised in 2019, impacting 160,000 customers and organic growth to prospective 65,000 customers by 2036
- AGN considered building a second transmission pipeline for less than \$1 per annum

Results:

- The majority of participants (85%) were supportive, understanding that network growth helped to minimise costs to all customers

AGN Plan:

- We will deliver this project at a cost of approximately \$0.50 per customer, to ensure ongoing reliable supply to customers



Customer Feedback | Customer Experience

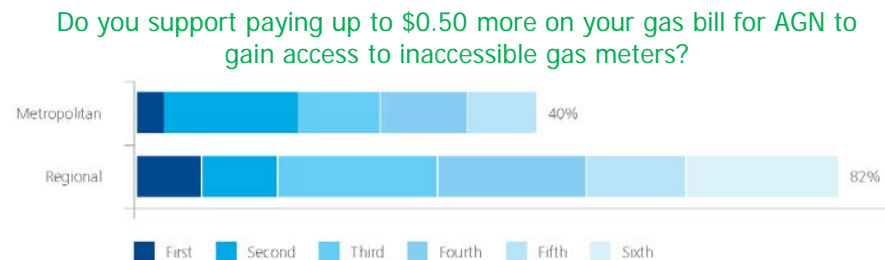
7. Customers are supportive of initiatives that maintain the reliability and improve the safety of networks

Gaining access to all meters in our networks:

- AGN need to access meters for reading and safety purposes but some are inaccessible
- AGN considered taking action to access meter for less than \$0.50 per annum

Results:

- Customers were less supportive of initiatives when network assets are in control of others (60% support)



AGN Plan:

- We have an obligation to replace certain meters at the end of their useful life (15 years)
- Consistent with this obligation, and given customer support, we plan to proceed with this work
- We are continuing to refine our approach (current cost estimate: less than \$0.50 per annum)

Customer Feedback | Customer Insights: Safety & Reliability

Initiative	Estimated Cost	Support	AGN Plan	Proposed Cost
Do you support paying more on your gas bill to increase public awareness of AGN's assets to improve safety?	\$0.10 to \$3.00	97%	AGN will be increasing awareness through other initiatives (digital capabilities, marketing).	-
Do you support paying more on your gas bill for AGN to gain access to inaccessible gas meters?	\$0.50	60%	We will work with customers to access and relocate meters at the end of their useful life.	\$0.50
Do you support paying more on your gas bill to complete ~300kms of the mains replacement program?	\$6.00	95%	We have determined that 289 kms of mains require replacement over the next five years.	\$4.50
Do you support paying more on your gas bill to improve fire preparedness by installing safety devices?	\$0.50 to \$3.60	94%	We will install thermal safety devices on all new and replacement meters in bushfire zones.	\$0.50
Do you support paying more on your gas bill to duplicate the Dandenong transmission pipeline?	\$1.00	85%	We will duplicate the Dandenong transmission pipeline.	\$0.50
Do you support paying more on your gas bill to conduct a series of smaller projects to support reliability?	\$3.00	86%	We will undertake a series of smaller projects to maintain reliability.	\$1.00
	\$11.10 to \$17.10			\$7.00
			Expanded marketing program to increase customers and network utilisation.	\$3.00

Customer Feedback | Customer Insights: Tariff Structure

8. Customers value the control gained by having their gas bill dependent on usage levels

Activity and Results:

- During the workshop you were asked what your preferred tariff structure was
- Opinions were mixed, however the majority (63%) indicated a preference to retain the current tariff style whilst 74% supported a high-to-very high degree of variability



AGN Plan:

- Consistent with feedback, we plan to maintain the current tariff structure
- We considered changes to the tariff structure such as:
 - The consolidation of tariffs (based on feedback from retailers for simplify tariffs)
 - The alignment of tariffs in the Victorian zones: Central, Northern and Murray Valley
- However, further investigation and consultation resulted in the decision to maintain current tariff structures

Customer Feedback | Customer Insights: Environment

9. Customers would like AGN to play a leadership role in minimising environmental impact

Activity and Results:

- There was an open discussion on AGN's approach to environmental management, performance and transparency
- Customers were mindful of AGN mitigating its environmental impact where it could
- Customers want AGN to be on the front foot to create positive changes to the environment

AGN Plan:

- Natural gas is a low carbon fuel: less than 25% of the CO₂ of mains electricity
- AGN is committed to operating in a way that minimises our environmental impact, including complying and reporting on all our environmental obligations
- We have commenced engagement with stakeholders on ways to improve our environmental reporting



Consideration of Stakeholder Feedback

Open Discussion



Do you agree with the stakeholder insights?

Do you agree with AGN's approach to incorporating/responding to these insights?

Other?

Feedback Form, Wrap Up and Close

Thank you for your time



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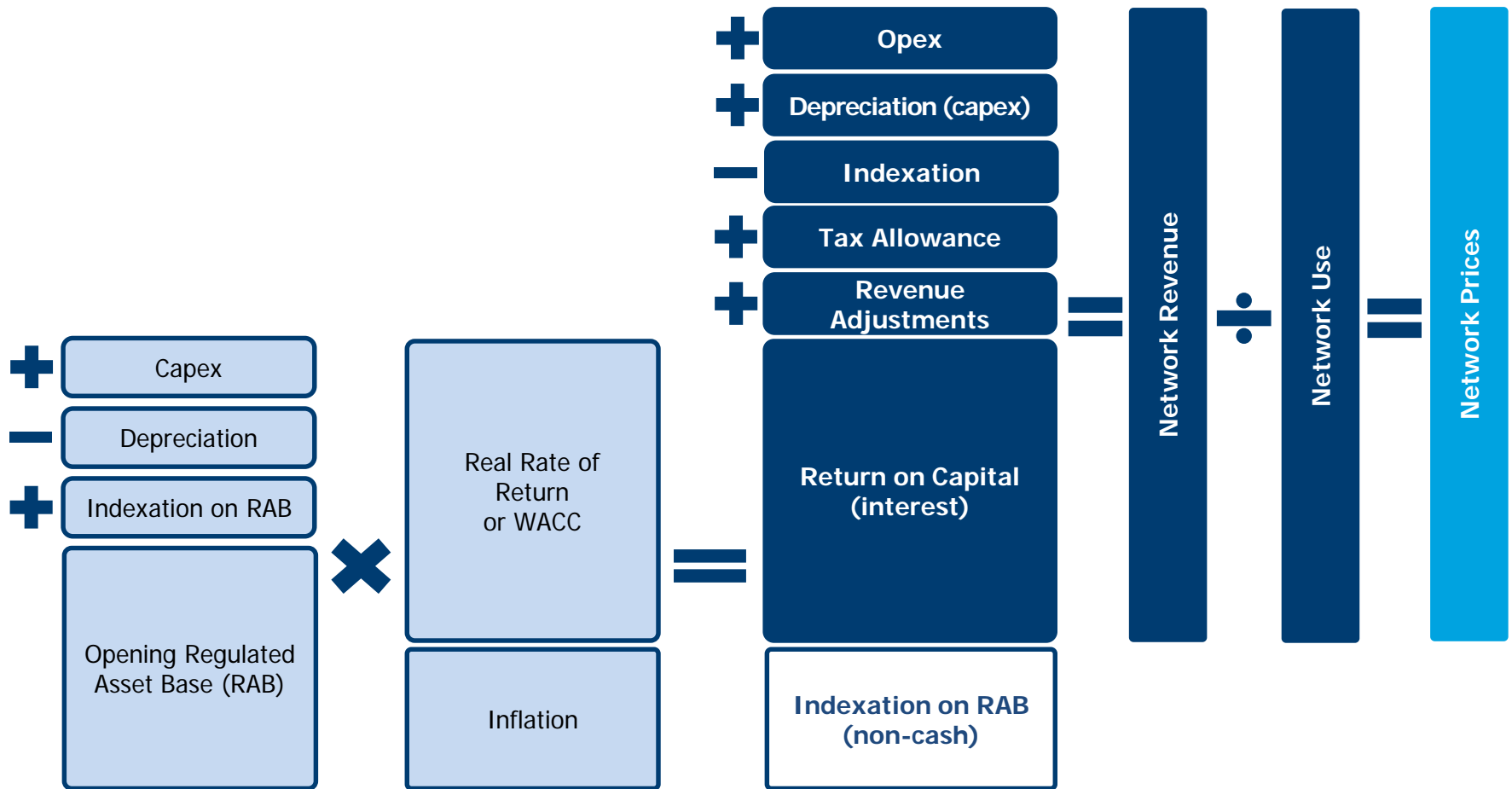


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australiangasnetworks.com.au

Supporting Information | Building Block Model



Supporting Information | Feedback Consideration

Insight	AGN Plan
Customers are not aware of AGN	We will introduce/continue several projects over the next five years, with a view to increasing visibility and understanding. These programs include: stakeholder engagement, marketing and digital capabilities.
Customers do not understand the structure of the gas industry	
Customers would like AGN to be more visible, believing it would improve their experience as customers	
Customers would like to access more information from AGN and favour digital channels	
Customers traditionally considered gas a cost-effective alternative to electricity but are concerned with recent price increases	Distribution prices will be lower over the next five years, compared to the current period.
Customers view gas as a reliable source of energy and value the current standard of reliability	Our expenditure is focussed on safety and reliability. Funds will be used to maintain (not improve) network reliability and improve network safety.
Customers are supportive of initiatives that maintain the reliability and improve the safety of the network	
Customers value the control gained by having their gas bill dependent on usage levels	
Customers would like AGN to play a leadership role in minimising environmental impact	AGN has commenced work relating to minimising and reporting on our environmental impact

AGN Five Year Plan for Victoria and Albury

6 October 2016
Warragul



Introduction | Warragul Agenda

Topic	Time	Duration
Introduction	7:00	5 minutes
Background	7:05	10 minutes
Our Plans – Current View	7:15	30 minutes
Our Plans – Discussion	7:45	10 minutes
Break	7:55	10 minutes
Recap and Incorporation of Feedback	8:05	50 minutes
Consideration of Feedback – Discussion	8:55	15 minutes
Feedback Form	9:10	10 minutes
Wrap up and close	9:20	10 minutes
End	9:30	